

# Alamos Gold Inc./Argonaut Gold Inc.

## PRECIOUS METALS

Lauren McConnell, Analyst | 416.366.7776 | [lmcconnell@paradigmcap.com](mailto:lmcconnell@paradigmcap.com)  
Don MacLean, Sr. Analyst | 416.360.3459 | [dmaclean@paradigmcap.com](mailto:dmaclean@paradigmcap.com)  
Don Blyth, Analyst | 416.360.3461 | [dblyth@paradigmcap.com](mailto:dblyth@paradigmcap.com)  
Jeff Banwell, Associate | 416.678.6179 | [ndunton@paradigmcap.com](mailto:ndunton@paradigmcap.com)

All figures in US\$, unless otherwise noted.

### Alamos Gold Inc.

#### Rating: Buy

unchanged

#### 12-Month Target: C\$25.00 ↑

previously C\$22.00

Price (C\$)		\$19.72
Ticker		AGI-T
FYE		31-Dec
Potential ROR (incl. dividend)		27%
Avg 3-month daily vol. (000s)		587
Shares O/S	Basic (M)	396.8
	FD (M)*	401.3
Market Cap	Basic (C\$M)	7,824
	FD (C\$M)*	7,915
Annual Dividend (C\$/sh) / Yield	\$0.14	0.69%
Company's Reporting Currency		US\$
Cash (\$M)		238
Long-Term Debt (\$M)		1
Working Capital (\$M)		0
Enterprise Value (\$M)		5,525
Net Asset Value (\$M) **		6,576
Net Asset Value (C\$/sh) **		22.23

\* FD - Fully diluted includes in-the-money options & warrants

\*\* NAV calculated using US\$2,195/oz gold price, 5% DCF

### Argonaut Gold Inc.

#### Rating: Tender

#### 12-Month Target: N/A

Price (C\$)		\$0.40
Ticker		AR-T
FYE		31-Dec
Potential ROR (incl. dividend)		N/A
Avg 3-month daily vol. (000s)		3,031
Shares O/S	Basic (M)	836.3
	FD (M)*	836.3
Market Cap	Basic (C\$M)	330
	FD (C\$M)*	330
Annual Dividend (C\$/sh) / Yield	\$0.00	0.00%
Company's Reporting Currency		US\$
Cash (\$M)		166
Long-Term Debt (\$M)		137
Working Capital (\$M)		88
Enterprise Value (\$M)		302

\* FD - Fully diluted includes in-the-money options & warrants

## Argonaut Gold Acquired: Alamos Expands Its Gold Empire

### Event

Alamos Gold (AGI) and Argonaut Gold (AR) have entered into a definitive agreement whereby AGI will acquire all the outstanding shares of AR in a friendly share deal with a total transaction value of \$325M. We are moving our AR rating to Tender.

### Highlights

- **The Bid** | The proposed transaction will see AGI acquire AR shares at a ratio of 0.0185 AGI shares per AR share and 1 share of SpinCo (Figure 6). Based on the 20-day VWAP of both companies, this values the AR bid at C\$0.40/sh, a 41% premium to AR shareholders. Existing shareholders of AGI and AR will own ~95% and ~5%, respectively, of the pro-forma company.
- **Significant Synergies Drive the Deal** | CEO of AGI, John McCluskey, remarked on the conference call that it was ultimately the \$515M in pre-tax synergies that drove this deal (Figure 1). Of that, AGI estimates \$375M of operating synergies with the use of the larger centralized mill and tailings facility at Magino. A capital savings of \$140M with mill and tailings expansion no longer needed at Island. In addition, C\$1B in tax pools at Magino that will delay paying cash taxes starting in 2025–2028 by utilizing the tax pools. Given the relatively long mine lives, the NPV of the operating synergies are probably about 2/3–3/4 of the total, thus \$250–\$280M. So, the operating synergies could represent 77–86% of the purchase price!
- **All About the Timing** | By waiting one could argue that Alamos is getting the Magino mine build for free. Here is a simple analysis:
  - At Dec. 31, 2021, AR had a basic market cap of \$591M and net cash of \$3M, for a total of \$588M. Add a 34% premium making it a total of \$789M.
  - As of the takeover, AR's basic market cap was \$241M, add a 34% premium making it \$323M, and it had \$305M in net debt (incl. deferred revenue) at Dec. 31 2023 for a total of \$627M.
  - The only difference is that Magino is now built (~\$1B in capital to build it); this does not include the synergies.

### Conclusion

We have long believed that Island and Magino would make sense as a combined operation, given just how close the two assets are located (Figure 2) and the significant synergies (beyond those outlined above) from labour to procurement to power to exploration that the combination would/will provide. Both are assets that we see significant exploration upside and AGI has done an excellent job of unlocking that at Island and expect it to do the same at Magino. Despite AR management's significant work to ramp Magino up to a steady state, mining dilution and low-quality parts in the mill which led to unscheduled downtime continued to put pressure on the balance sheet and in turn the share price (see our [Feb. 26 research note](#)). Ultimately, we felt that an expansion of the Magino mill would be necessary to achieve economies of scale. AGI has both the technical expertise and the balance sheet to best optimize this asset. In addition, AGI has a long history of creating value through acquisition with \$2.7B of combined value created at Young-Davidson, Island and Lynn Lake (Figure 4). We currently have AGI trading at 0.9x NAV. Prior to the acquisition announcement, our valuation of AR had it trading at 0.23x NAV (C\$1.33 @ \$2,179/oz gold). Applying a 34% premium, it would be trading at 0.30x NAV; therefore, it is accretive to our AGI estimates on a NAV basis. We recommend investors of AR tender to the AGI bid as we believe it is the best option that will deliver significant financial and operational benefits over time. We are also increasing our target on AGI to C\$25.00 (from C\$22.00), based on a blend of our NAV and P/CF using our target gold price of \$2,400/oz (was \$2,100/oz) and assuming it maintains the same trading multiple. We continue to view it as a core holding and that it will maintain its premium multiple due to its a strong balance sheet, self-funded growth and two long-life operating assets in Canada. We maintain our Buy rating.

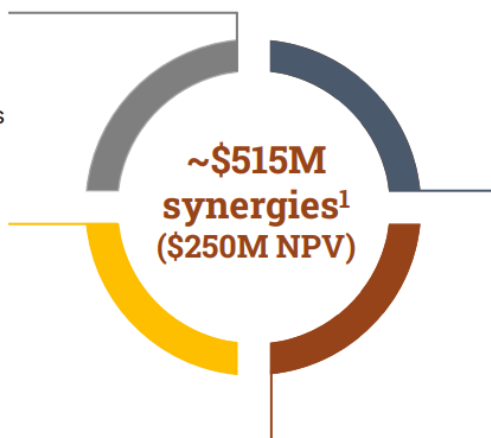
**Figure 1: Summary of Synergies**

### Capital savings: ~\$140M

- through use of one central mill & tailings facility at Magino
- Island Gold mill & ongoing tailings expansions no longer required

### Operating savings: ~\$375M

- **\$25M annual operating savings** over life of mine
- lower processing costs through central Magino mill
- lower consolidated mine-site G&A



### Procurement savings

- increased purchasing power with three Canadian operations in proximity

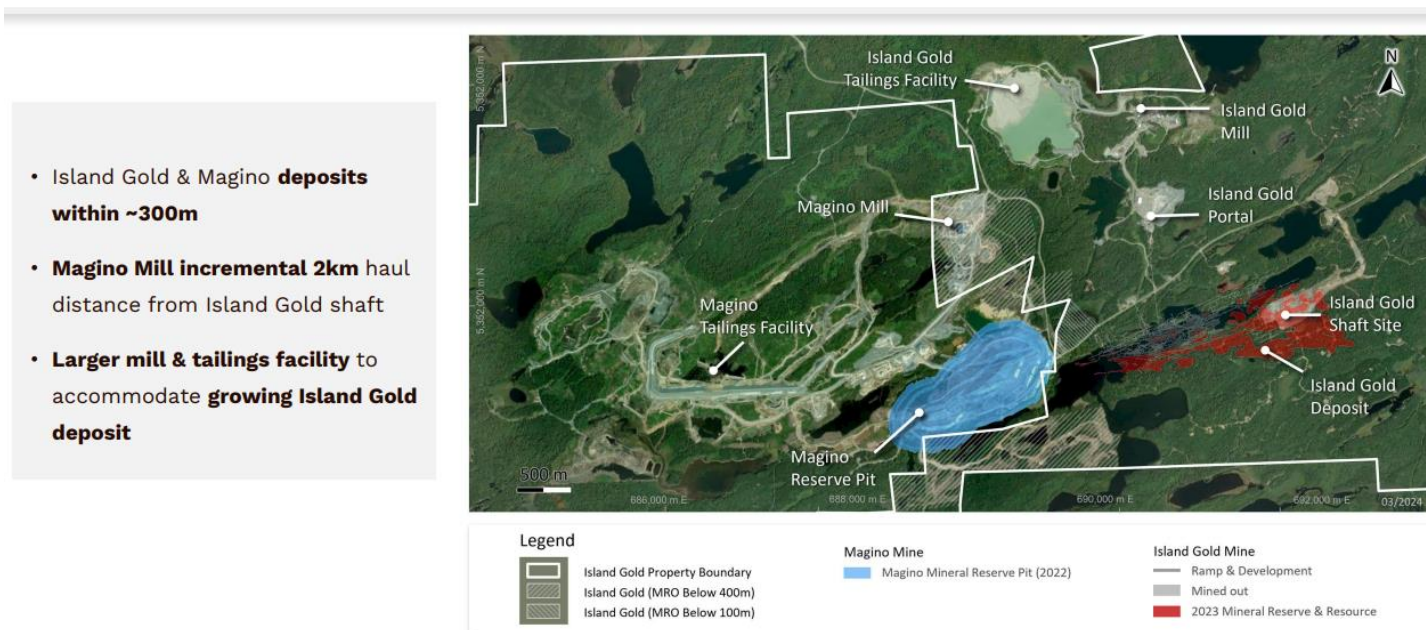
### Tax synergies

- Deferral of cash taxes in Canada with larger tax pools

<sup>1</sup> Synergies pre-tax and undiscounted over life of mine; after-tax discounted value of synergies is \$250m

Source: Company filings

Figure 2: Map of the Complex

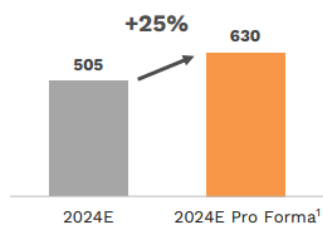


Source: Company filings

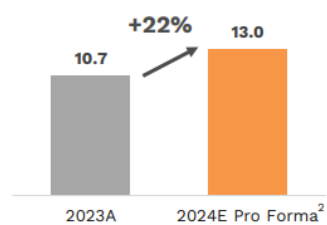
Figure 3: Accretive on a per share Basis for Production and Reserves

### Adding value on aggregate & per share basis

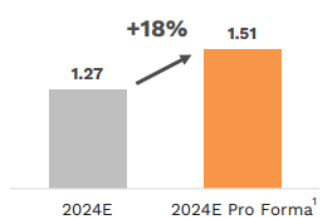
#### Gold Production (k oz Au)



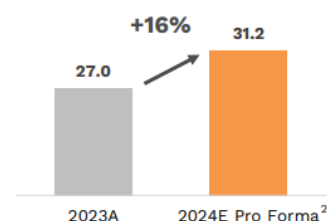
#### Mineral Reserves (M oz Au)



#### Gold Production per Share (oz x 1000)

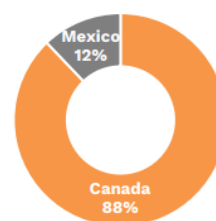


#### Gold Reserves per Share (oz x 1000)

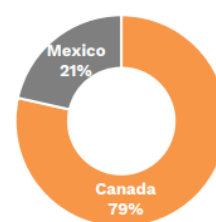


### Leading Canadian Exposure

#### Asset NPV<sup>3</sup> by Geography



#### 2024-2026E Production<sup>4</sup> by Geography



<sup>1</sup> 2024 gold production is based on the mid point of 2024 annual Alamos guidance and Argonaut guidance for Magino  
<sup>2</sup> See Mineral Reserve and Resource estimates and associated footnotes in appendix  
<sup>3</sup> Based on consensus analyst net asset value (NAV) estimates for mining assets  
<sup>4</sup> Alamos production based on the mid point of 2024-2026 guidance; 2024 - 2026 Magino production based on consensus estimates

Source: Company filings

**Figure 4: Long-Term Track Record of Creating Value**

**\$2.7 billion of combined value created** at Young-Davidson, Island Gold & Lynn Lake since acquisition<sup>1,2</sup>



<sup>1</sup> Based on consensus analyst net present value (NPV) estimates.  
<sup>2</sup> Cumulative free cash flow (FCF) generated since acquisition as of Q4 2023. Please refer to Cautionary Notes on non-GAAP Measures and Additional GAAP Measures.  
<sup>3</sup> Acquisition cost based on the value of Richmond Mines on closing (\$627 million), net of \$58 million in cash on its balance sheet. Royalty & NPI repurchases totaled \$71 million.

31

Source: Company filings

**Figure 5: Pro-forma Capitalization**


		 ALAMOS GOLD INC. <b>ALAMOS GOLD PRO FORMA<sup>1</sup></b>		
Trading	Exchanges	(exchange)	TSX/NYSE	TSX/NYSE
	Share Price	(C\$/sh)	\$18.45/US\$13.60	
Capitalization	Market Capitalization	(C\$ mm)	\$7,323	\$7,698
	Market Capitalization	(US\$ mm)	\$5,398	\$5,675
	Enterprise Value	(US\$ mm)	\$5,173	\$5,690
	Cash	(US\$ mm)	\$225	\$309
	Debt	(US\$ mm)	Nil	\$324
Shares outstanding	Shares outstanding <sup>2</sup>	(mm)	396.9	417.3

Source: Company filings  
<sup>1</sup> Alamos Pro Forma cash and debt values are based on Alamos cash and Argonaut cash and debt as of December 31, 2023.  
<sup>2</sup> Alamos basic shares outstanding

Source: Company filings



Figure 6: SpinCo

Ownership	<ul style="list-style-type: none"> <li>Argonaut shareholders to own 80.01% of SpinCo</li> <li>Alamos to own 19.99% following \$10 million equity financing upon SpinCo going public</li> </ul>
Investment highlights	<ul style="list-style-type: none"> <li>Two producing assets with over 100k oz of production expected in 2024<sup>1</sup></li> <li>Attractive valuation with consensus analyst Net Asset Value of \$170 million<sup>2</sup></li> <li>Florida Canyon: 2024 production guidance 63 to 70k oz with 9 to 10 year mine life<sup>1</sup></li> <li>San Agustin (El Castillo Complex) is forecast to deliver 35 to 40k oz of gold production in 2024<sup>1</sup></li> <li>Cerro de Gallo open pit, heap leach development project – with targeted annual production of 80k oz GEO's over a 15.5 year mine life<sup>3</sup></li> <li>La Colorada: potential to deliver meaningful value through restart of operation supported by pre-stripping</li> </ul>
Balance Sheet	<ul style="list-style-type: none"> <li>Strong balance sheet with \$10 million cash</li> </ul>
<div>  <p>Florida Canyon, US</p> </div> <div>  <p>El Castillo Complex, Mexico</p> </div> <div>  <p>Cerro de Gallo, Mexico</p> </div>	

<sup>1</sup> Based on the mid-point of 2024 guidance  
<sup>2</sup> Based on consensus analyst estimates  
<sup>3</sup> January 31, 2020 Pre-Feasibility Study

30

Source: Company filings

## DISCLAIMER SECTION

Company	Ticker	Disclosures
Alamos Gold Inc.	AGI-CA	3
Argonaut Gold Inc.	AR-CA	2,3

Note: Please refer to above table for applicable disclosure numbers.

- The analyst has an ownership position in the subject company.
- Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to the subject companies during the past 12 months.
- Paradigm Capital Inc. expects to receive or intends to seek compensation for investment banking services from the subject companies in the next 3 months.
- Paradigm Capital Inc. has greater than a 1% ownership position in the subject company.
- The analyst has a family relationship with an Officer/Director of subject company.
- A partner, director, officer, employee or agent of Paradigm Capital Inc. is an officer or director of the issuer.

Paradigm's disclosure policies and research distribution procedures can be found on our website at [www.paradigmcap.com](http://www.paradigmcap.com). Paradigm Capital Inc. research is available on Bloomberg, CapitalIQ, FactSet and Thomson Reuters or at [www.paradigmcap.com](http://www.paradigmcap.com). Issued by Paradigm Capital Inc.

### Stock Coverage History

#### Alamos Gold

Date	Target	Rating	Estimates
5/15/2023	\$22.00↑	Buy	
12/7/2005	\$7.00↑	Buy	

#### Argonaut Gold

Date	Target	Rating	Estimates
2/27/2023	\$0.90↓	Buy	
11/10/2020	\$6.50	Buy	Initiating Coverage

### Research Rating System

Paradigm Capital Inc. uses the following rating recommendation guidelines in its research:

Recommendation	Number of Companies	Percentage Breakdown	
Buy	74	51%	Buy – Expected returns of 20% or more over 12 months.
Spec. Buy	41	28%	Speculative Buy - Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early stage companies.
Hold	4	3%	Hold - Expected returns of less than +/- 20% over the next 12 months. Includes companies Under Review.
Sell*	0	0%	Sell - Expected returns of -20% or more over the next 12 months.
<b>Total</b>	<b>119</b>		

\*Includes companies with a "Tender" recommendation

### About Paradigm Capital Inc.

Paradigm Capital Inc. (PCI) is a research-driven, independent, institutional equity investment dealer focused on sectors and companies that have attractive long-term secular growth prospects. PCI's research is available on our website at [www.paradigmcap.com](http://www.paradigmcap.com). Please speak to your Sales or Trading Representative if you require access to the website.

The analyst (and associate) certify that the views expressed in this report accurately reflect their personal views about the subject securities or issuers. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations expressed in this research report.

Analysts are compensated through a combined base salary and bonus payout system. The bonus payout is determined by revenues generated directly or indirectly from various departments including Investment Banking, based on a system that includes the following criteria: reports generated, timeliness, performance of recommendations, knowledge of industry, quality of research and investment guidance and client feedback. Analysts are not directly compensated for specific Investment Banking transactions.

The opinions, estimates and projections contained herein are those of PCI as of the date hereof and are subject to change without notice. PCI makes every effort to ensure that the contents herein have been compiled or derived from sources believed reliable and contain information and opinions, which are accurate and complete. However, PCI makes no representation or warranty, express or implied, in respect thereof, and takes no responsibility for any errors and omissions that may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this research report or its contents. Information may be available to PCI, which is not reflected herein. This research report is not to be construed as an offer to sell or solicitation for or an offer to buy any securities. PCI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. PCI may act as financial advisor and/or underwriter for certain of the corporations mentioned herein and may receive remuneration for same. PCI is a member of The Toronto Stock Exchange, The TSX Venture Exchange and The Investment Industry Regulatory Organization of Canada (IIROC).

Any products or services mentioned on this website are made available only in accordance with local law (including applicable securities laws) and only where they may be lawfully offered for sale. PCI will not open accounts except in jurisdictions in which it is registered.

**To U.S. Residents:** This report was prepared by PCI which is not subject to U.S. rules with regard to the preparation of research reports and the independence of analysts. PCI U.S., affiliate of PCI, accepts responsibility for the contents herein, subject to the terms as set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so through PCI U.S.

## RESEARCH

---

### Healthcare

Scott McAuley, PhD, Analyst (Head of Research) 416.361.9080

### Diversified Industries

Alexandra Ricci, Analyst 416.361.6056

### Technology

Daniel Rosenberg, Analyst 416.361.6054

Thomas Hui, Associate 416.573.9108

### Energy

Link Liu, Associate 403.513.1032

### Metals, Mining & Agriculture

David Davidson, Senior Analyst 416.360.3462

Jeff Woolley, CFA, Analyst 416.361.9557

Gordon Lawson, Analyst 416.363.5476

Matthew Chong, Associate 416.361.6053

### Gold and Precious Metals

Don MacLean, Senior Analyst 416.360.3459

Don Blyth, Analyst 416.360.3461

Lauren McConnell, Analyst 416.366.7776

Jeff Banwell, Associate 416.678.6179

### Industrial Products

Marvin Wolff, CFA, Analyst 416.361.3376

### Quantitative & Technical Analysis

Aazan Habib, CFA, CMT, Analyst 416-648-2308

## SALES

---

John Bellamy (Head of Sales) 416.361.6032

Matt Doty 416.361.5987

David Roland 416.216.6844

Craig Mills 416.361.1895

Naomi Ebata, CFA 416.364.9764

Wolfgang Rosner 514.447.8950

## TRADING

---

Peter Dunlop 416.368.6557

Tom George 416.360.3579

Oliver Herbst 416.364.7988

Bruce Latimer 416.368.8353

## OFFICES

---

### Toronto

95 Wellington Street West, Suite 2101, PO Box 55

Toronto, Ontario M5J 2N7

General Line 416.361.9892

Fax Line 416.361.6050

### Calgary

110-9th Avenue SW

Suite 500

Calgary, Alberta T2P 0T1

General Line 403.513.1025

Fax (Research) 403.265.8721

## STOCK RATING SYSTEM

---

**Buy:** Expected returns of 20% or more over 12 months.

**Speculative Buy:** Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early-stage companies.

**Hold:** Expected returns of less than 20% over the next 12 months.

**Sell:** Expected returns of -20% or more over the next 12 months. .